

Message Text

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PAGE 01 OTTAWA 01342 120018Z

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SUBJECT: MINFIN TURNER ON 1975 ECONOMIC OUTLOOK AND "NATIONAL
CONSENSUS" PROGRAM

REF: OTTAWA 1332

BEGIN UNCLASSIFIED

1.SUMMARY. AT APRIL 11 FEDERAL-PROVINCIAL CONFERENCE
(DESCRIBED REFTEL AND PREVIOUS),MINFIN TURNER TOLD FIRST
MINISTERS THAT CANADA WOULD EXPERIENCE NO REAL GROWTH FOR
ALL OF 1975, AND HE TRACED BROAD OUTLINES OF VOLUNTARY WAGE
AND PRICE RESTRAINT PROGRAM ON WHICH GOC LEADERS ARE CON-
SULTING WITH BUSINESS, LABOR AND PROVINCIAL OFFICIALS.
ALTHOUGH HE PREDICTED ECONOMY WOULD RECOVER FROM PRESENT
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PAGE 02 OTTAWA 01342 120018Z

DOWNTURN AFTER MID-YEAR, TURNER TIED RECOVERY TO US

ECONOMIC PICKUP AND SAID RISING INTERNAL COSTS, PARTICULARLY UNIT-LABOR INCREASES, WOULD RESTRAIN GROWTH COMEBACK. END SUMMARY.

2. IN GLOOMIEST FORECAST TURNER HAS PRESENTED THUS FAR (LAST NOVEMBER HE PREDICTED 4 PERCENT REAL GROWTH BUT SINCE THEN PUBLICLY "SHADED DOWN" HIS FORECAST WITHOUT SPECIFICS), HE TOLD FIRST MINISTERS' CONFERENCE THAT REAL GNP DECLINED IN FIRST QUARTER AND "MAY HAVE FURTHER DECLINE IN SECOND" BEFORE ECONOMY RECOVERS IN SECOND HALF OF 1975. SLACKNESS IN ECONOMIES OF OTHER INDUSTRIALIZED COUNTRIES CONTINUES ADVERSELY AFFECT CANADIAN PERFORMANCE.

3. TURNER SAID CANADIAN EXPORTS WERE REDUCED BY US RECESSION AND WILL NOT INCREASE UNTIL PICKUP IN US ECONOMY. HOWEVER, HE POINTED OUT, RISING COSTS "WILL RESTRAIN THE RECOVERY OF OUR EXPORTS". UNTIL THIRD QUARTER OF 1974, WAGES AND PROFITS WERE UP STRONGLY; IN FOURTH QUARTER PROFITS TUMBLED BUT WAGES ADVANCED. "CONTINUED SURGE OF WAGES AND SALARIES AND THE SAGGING OF PROFITS", TURNER SAID "EPITOMIZE THE PROBLEMS OF THE CANADIAN ECONOMY IN THE PERIOD AHEAD".

4. "WHEREAS IN THE EARLY 1970'S THE INCREASES IN OUR (WAGE) SETTLEMENTS WERE, ON THE AVERAGE, BELOW THOSE IN THE UNITED STATES", TURNER STATED, "FOR THE PAST THREE YEARS, THE INCREASES IN OUR SETTLEMENTS HAVE BEEN HIGHER. THE MARGIN IS NOW VERY WIDE". HE NOTED THAT FOR NEW CONTRACTS IN CANADA, WAGES RISE BY 20 PERCENT, ROUGHLY TWICE THE RATE IN THE US, AND THAT UNIT LABOR COSTS ARE NOW RUNNING MUCH AHEAD OF US LEVEL.

5. TURNER POINTED OUT THAT NOVEMBER BUDGET STIMULUS WAS NOW BEGINNING TO WORK IN ECONOMY AND BUSINESS CAPITAL INVESTMENT, WHICH REMAINS RELATIVELY STRONG, WILL IMPROVE CANADIAN PRODUCTIVITY AND HELP MAINTAIN CANADA'S COMPETITIVENESS.

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PAGE 03 OTTAWA 01342 120018Z

6. TURNER OUTLINE OF GOC POLICY ON "NATIONAL CONSENSUS" FOR WAGE AND PRICE RESTRAINT WAS 6-POINT PROGRAM OF:

- A. ESTABLISHMENT OF AGREED BUT UNSPECIFIED TARGETS FOR SLOWING DOWN INFLATION;
- B. LIMITATION ON WAGE AND SALARY INCREASES BASED ON SAME TARGETS;

C. ESTABLISHMENT OF CATCHUP WAGE SETTLEMENTS
WITH PREFERENCE FOR LOWER PAID WORKERS AND SOME
PRODUCTIVITY ADJUSTMENT;
D. LIMITATION ON PRICE INCREASES TO AMOUNTS SUFFICIENT
TO COVER INCREASED COSTS;
E. LIMITATION ON INCREASES IN RENTS AND
PROFESSIONAL FEES IN CONFORMITY WITH GENERAL
PROGRAMS; AND
F. CREATION OF MONITORING BOARD OR BOARDS AND
PUBLICATION OF REPORTS ON SIGNIFICANT CHANGES.

7. TURNER TOLD PRESS THAT DETAILS OF PROGRAM (E.G.,
LIMITS FOR INFLATION AND POWERS OF BOARDS) ARE UNDECIDED
AND SUBJECT TO NEGOTIATIONS STILL TO BE CONCLUDED WITH
BUSINESS AND LABOR LEADERS. HE HEDGED ON WHETHER NEW
BUDGET PROPOSED FOR MAY WILL BE POSTPONED BECAUSE OF
FEDERAL-PROVINCIAL LEADERS' FAILURE TO REACH AGREEMENT
ON OIL PRICE INCREASES BY SAYING THAT HE WOULD EITHER
MAKE ASSUMPTIONS ABOUT PRICE INCREASES OR DELAY BUDGET
A WEEK OR SO.

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8. COMMENT: TURNER'S ECONOMIC PREDICTIONS ARE AS
PESSIMISTIC AS ANY EMBASSY HAS SEEN. IN PAST FEW
MONTHS HE AND OTHER GOC OFFICIALS HAVE BEEN RELATIVELY
OPTIMISTIC ABOUT THE FUTURE OF THE ECONOMY BUT EARLY
1975 FIGURES ON DEFICIT IN MERCHANDISE TRADE, WAGE
SETTLEMENTS MUCH HIGHER THAN INFLATION RATE, LITTLE
ABATEMENT IN PRICE INCREASES (LATEST STATCAN CPI
STATISTICS SHOW FOOD PRICES DOWN SOMEWHAT BUT OTHER
PRICES STILL INCREASING), AND OTHER ADVERSE ECONOMIC
INDICATORS HAVE PRODUCED TURNER'S NEW DISMAL PROJECTIONS.
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PAGE 04 OTTAWA 01342 120018Z

9. PRESS ANALYSTS POINT TO FAILURE OF PRICE AND
INCOMES COMMISSION OF 1969 TO 1972 BECAUSE OF VOLUNTARY
NATURE OF PRICE AND WAGE RESTRAINTS THEN AND WONDER
WHETHER SIMILAR BOARDS OR BOARDS UNDER NEW TURNER
PROPOSALS CAN HAVE ANY GREATER SUCCESS. TURNER HOPES
FOR CONSENSUS BY LABOR AND BUSINESS BUT RECOGNIZES
EXTREME DIFFICULTY IN OBTAINING AGREEMENT. TURNER CAN
BRING DOWN BUDGET IN MAY WITH EVEN LARGER TAX REDUCTIONS
AND GOVERNMENT SPENDING TO STIMULATE ECONOMY. HOWEVER,
SUCH ACTIONS WILL NOT BLUNT INFLATION THRUST IN
CANADA, SPURRED BY RECENT AND PROJECTED SIZEABLE WAGE
SETTLEMENTS.

10. OF PARTICULAR INTEREST IS TURNER'S EMPHASIS ON

MUCH HIGHER UNIT LABOR COSTS IN CANADA. HE AND OTHER
GOC OFFICIALS ARE WORRIED ABOUT CANADA'S COMPETITIVE
POSITION IN EXPORT MARKETS AS COSTS RISE FASTER IN
CANADA THAN IN US.WITHOUT OPENLY CRITICIZING
CANADIAN LABOR FOR LARGE WAGE DEMANDS AND WORK STOP-
PAGES, TURNER IS WARNING THEM THAT THEY COULD BE
PRICING CANADA'S GOODS OUT OF WORLD MARKETS AND THEM-
SELVES OUT OF JOBS.EMBASSY BELIEVES THIS IS AREA
THAT MUST BE WATCHED CLOSELY.DETERIORATION IN
CANADIAN INDUSTRY'S COMPETITIVE POSITION WOULD LIKELY
GENERATE PRESSURES FOR CORRECTIVE ACTION (AS IS ALREADY
HAPPENING IN TEXTILE INDUSTRY) WITH POSSIBL ADVERSE
IMPACT ON U.S. INTERESTS.
PORTER

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